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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000356

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SUBJECT: KMT MA YING-JEOU SADDLED WITH INDICTMENT, STILL
RUNNING FOR PRESIDENT

Classified By: Director Stephen M. Young, Reason(s): 1.4 (B/D).

11. (C) Summary: On January 13, KMT Chairman Ma Ying-jeou was formally indicted for corruption. Prosecutors charged Ma with unlawfully pocketing more than NT \$10 million in mayoral office funds during his eight-year stint as Taipei mayor. In a follow-up press conference, Ma disputed the charges, resigned as KMT chairman, and declared his intention to run for president despite the indictment. The KMT has pinned its hopes of regaining the presidency on Ma and his reputation for integrity. Those hopes are now jeopardized. The KMT must next decide whether to stick with Ma, or dump him in favor of another candidate. This will be a painful process that will reveal divides within the party at a time when Ma and others had hoped to begin building a campaign juggernaut for the 2007 legislative race and the 2008 presidential election. The ruling DPP has to be buoyed by this serious setback to their fiercest rival, which makes the 2008 presidential race a wide open contest again. End Summary.

Ma Indicted for Corruption

12. (U) On January 13, the Taipei District Prosecutor's Office publicly announced the indictment of KMT Chairman and former Taipei mayor Ma Ying-jeou for corruption, alleging that Ma had improperly diverted NT \$11.17 million (US \$361 thousand) of mayoral office funds to personal accounts. Five staffers from Ma's mayoral office were also indicted for corruption and forgery. If convicted, Ma faces a minimum of seven years in prison and a fine of up to NT \$60 million (US \$2 million). The prosecutor recommended a reduced sentence in light of Ma's decision to donate most of the disputed funds to charity. At a subsequent press conference, the KMT task force investigating Ma's alleged wrongdoing announced its conclusion that Ma had not intended to embezzle any funds, but had been tripped up by confusing financial rules.

Ma Vows to Fight, Run for President

13. (C) At his own press conference, Ma denied any wrongdoing, and vowed to clear his name. Ma also announced his decision to immediately resign as chairman, as is required under party guidelines. At the same time, he declared his intention to

run for president, despite the indictment. The KMT is holding a special meeting of the Central Standing Committee the evening of January 13 to discuss Ma's resignation. The CSC is expected to designate Vice-Chairman Wu Po-hsiung to serve as acting chairman until a new chairman is elected within the next three months.

Lien Favors Wait and See

14. (C) KMT Honorary Chairman Lien Chan told the Director on February 12 that an indictment could harm Ma enough to derail his presidential nomination. Lien predicted the KMT will use polls to decide whether Ma, despite the indictment, is still the KMT's best presidential candidate. If he isn't, another candidate will be chosen to replace him. If he is, however, the party could remove the ethics rule barring him from receiving the nomination. Lien explained that when he was chairman, only a conviction would bar a candidate from receiving a party nomination. When Ma became chairman in 2005, he wanted stricter rules, and the KMT Central Standing Committee (CSC) agreed with his proposal to bar indicted members from receiving party nominations. Ma's new rules also require suspending an indicted member's party membership and privileges until the member has cleared his name. According to Lien, the rules changes are not yet final because the Party Congress has yet to approve them. The Party Congress could convene an extraordinary session to reject the changes, restoring the rules to their Lien-era state. Ma could then stand for the nomination, Lien surmised, despite his indictment.

Wang Predicts Ma is Finished

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15. (C) KMT LY Speaker Wang Jin-pyng, on the other hand, told the Director that Ma's political career was over. The Director saw Speaker Wang on January 13 (in a previously scheduled meeting) just after news of Ma's pending indictment had broken. Wang said the trial process would take at least six months. Ma cannot represent the party in any capacity with the indictment over his head, and there was insufficient time for Ma to vindicate himself before the KMT had to choose a presidential candidate. Ma's considerable public support will be useless to him now, Wang contended, since public support makes no difference to party ethics rules. Wang suggested that Ma knew or should have known that his decision to divert public funds for his private use was improper, regardless of what the regulations said. Ma is finished, Wang insisted, because President Chen has been watching his every move and keeping track of all of his mis-steps. Honorary Chairman Lien Chan is interested in assuming the party chairmanship again, Wang told the Director, but does not want to run for president. It may be difficult for the KMT to choose a candidate to replace Ma, Wang conceded, but the party should choose someone like himself who can attract strong support from voters in the South.

KMT LY Caucus Leaders Back Ma

16. (C) A week before Ma's indictment, KMT legislators Pan Wei-kang (KMT deputy whip) and Wu Yu-sheng (former KMT spokesman) told AIT in separate meetings that Ma was "far and away" the party's best presidential candidate. LY Speaker Wang is a "traditional KMT politician representing local interests," Wu opined, while Ma is "a symbol of integrity" who has a vision for the future of the KMT and Taiwan. Pan asserted that the KMT would do "whatever it takes" to preserve Ma's eligibility, including but not limited to amending the party's ethics rules. Neither legislator expected the indictment to undermine public support for Ma, since most voters believe in Ma's integrity, and would recognize the indictment for the "political tactic that it

is." Wu said the KMT would try to use the indictment to boost Ma's popularity, by portraying him as a victim of DPP dirty tricks.

DPP Leaders Rub it In

17. (U) Premier Su Tseng-chang and DPP Chairman Yu Shyi-kun said they respect the prosecutor's decision to indict Ma on corruption charges. Yu added that he was not surprised by Ma's indictment since Ma contradicted himself several times explaining how the money had been used.

Comment:

18. (C) Six months ago, Ma Ying-jeou seemed a shoo-in to win the presidency in 2008. Now, he has been forced to resign the KMT chairmanship under a cloud, which, if certain naysayers are to be believed, could bring an end to his political career. Ma is down, and will be fighting for his political life in the coming weeks. But with the presidential race more than a year away, he isn't out yet. Ma has reform-minded allies within the party who will rally to his side as long as he remains popular with the public. The other unknown is the outcome of ongoing investigations into the "special accounts" of other prominent politicians, including the DPP's leading presidential contenders, Vice President Annette Lu, Premier Su Tseng-Chang, former Premier Frank Hsieh, and DPP Chairman Yu Shih-kun. If prosecutors catch DPP leaders in this dragnet, the issue could lose its political sting. For now, however, the DPP has to be celebrating this fortuitous turn of events which makes the 2008 presidential sweepstakes a wide open race again.
YOUNG